

July 2020

# GUIDING PRINCIPLES

## Policy Committee Meeting



**Teacher Retirement System of  
Texas**  
1000 Red River Street  
Austin, Texas  
78701-2698

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING  
BOARD OF TRUSTEES  
AND  
POLICY COMMITTEE**

*(Committee Chair and Members: Mr. Elliott, Chair; Mr. Corpus,  
Mr. Hollingsworth, Mr. Nance and Mr. Walls)*

*By Videoconference*

THE JULY 15, 2020, MEETING OF THE TRS POLICY COMMITTEE AND BOARD OF TRUSTEES MEETING WILL BE CONDUCTED BY VIDEOCONFERENCE IN ACCORDANCE WITH THE GOVERNOR'S AUTHORIZATION CONCERNING SUSPENSION OF CERTAIN OPEN MEETING LAW REQUIREMENTS IN RESPONSE TO THE COVID-19 (CORONAVIRUS) DISASTER. A quorum of members of the Committee will participate in the meeting and will be audible to the public. Members of the public may access the meeting by clicking <https://zoom.us/j/984-348-8378> Meeting ID: 984-348-8378, please email the Board Secretary to obtain the meeting password at Katherine.Farrell@trs.texas.gov.

*The open portions of the July 15, 2020, meeting are being broadcast over the Internet. Access to the Internet broadcast and agenda materials of the meeting is provided at [www.trs.texas.gov](http://www.trs.texas.gov). A recording of the meeting will be available at [www.trs.texas.gov](http://www.trs.texas.gov).*

**AGENDA**

**July 15, 2020 – 10:20 a.m.**

1. Call roll of Committee members.
2. Consider the approval of the proposed minutes of the December 2019 committee meeting – Chair John Elliott.
3. Consider recommending to the Board proposed amendments to the Proxy Policy – Mark Albert.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Policy Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Policy Committee constitutes a quorum of the Board, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.

## **Minutes of the Policy Committee December 12, 2019**

The Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas met on Thursday, December 12, 2019, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

### **Committee members present:**

Mr. John Elliott, Chairman  
Mr. David Corpus  
Mr. Jarvis V. Hollingsworth  
Mr. James D. Nance  
Mr. Robert H. Walls, Jr.

### **Other TRS Board Members present:**

Mr. Mike Ball  
Mr. Chris Moss  
Ms. Nanette Sissney

### **Others present:**

Brian Guthrie, TRS	Ann Fickel, TCTA
Andrew Roth	Ann Heuberger, TRS member
Don Green, TRS	
Carolina de Onis, TRS	
Jerry Albright, TRS	
Jase Auby, TRS	
Barbie Pearson, TRS	
Heather Traeger, TRS	
Sylvia Bell, TRS	
Joel Hinkhouse, TRS	
Rob Maxwell, TRS	
Clarke Howard, TRS	
Kevin Wakley, TRS	
Katherine Farrell, TRS	
Suzanne Dugan, Cohen Milstein	

Policy Committee Chairman, Mr. John Elliott, called the meeting to order at 1:55 p.m.

### **1. Call roll of Committee members.**

Ms. Farrell called the roll. A quorum was present.

### **2. Consider the approval of the proposed minutes of the September 2019 committee meeting – Chair David Corpus.**

On a motion by Mr. Corpus, seconded by Mr. Hollingsworth, the committee voted to approve the proposed minutes for the September 2019, Policy Committee meeting as presented.

**3. Consider recommending to the Board adoption of the proposed amendments to the Proxy Policy and Procedures – Joel Hinkhouse.**

Mr. Joel Hinkhouse stated that the policy requires review every three years. Mr. Hinkhouse stated that staff has no recommended changes to the policy at this time. He noted ISS was scheduled to present at the February Board. He recommended bringing forth the policy for adoption after the Board had heard from ISS. The committee agreed without further discussion.

**4. Consider recommending to the Board proposed amendments to Commission Credits Policy – Sylvia Bell.**

Ms. Sylvia Bell provided an overview of the two commission credit programs at TRS, Commission Recapture and Commission Sharing. In both cases, the credits come back to TRS in the form of cash that is directed to a bank account at State Street to use those credits for goods and services that support the Investment Management Division.

Ms. Bell stated that the Commission Credits Policy is in place with three very important operating principles: TRS must strive for best execution on trades, purchases must be used for the investment decision-making process, and replicate an operating budget. Mr. Don Green ensured the committee that this account is tracked, budgeted and reconciled similar to the agency operating budget.

Ms. Bell then reviewed the red-line changes in the proposed amendments. She stated the revisions were mostly for clarity and conciseness such as removing references to obsolete forms.

On a motion by Mr. Nance, seconded by Mr. Corpus, the committee unanimously voted to recommend to the Board approval of the proposed amendments to the Commission Credits Policy as presented by staff.

**5. Consider recommending to the Board proposed amendments to the Board of Trustees External Communications Policy – Rob Maxwell.**

Mr. Rob Maxwell reviewed the proposed amendments including minimal changes to three main areas of the policy. The first proposed change was how often Trustees can receive external communications training, changing to an as-needed basis from a once a year training. The second proposed change was the process of notifying TRS Staff of the Board's public appearances, altering the point of contact from Communications to the Board Secretary. The third proposed change provided clarity to the public appearances by Trustees, distinguishing a public appearance in an official capacity for TRS versus those a Trustee undertakes on a personal or non-TRS role.

On a motion by Mr. Corpus, seconded by Mr. Hollingsworth, the committee unanimously voted to recommend to the Board approval of the proposed amendments to the Board of Trustees External Communications Policy as presented by staff.

6. Consider authorizing for publication in the *Texas Register* notice of proposed amendments of the TRS rules in Chapters 41 and 43 of Title 34, Part 3 of the Texas Administrative Code – Carolina de Onis, Clarke Howard, and Kevin Wakley.
  - A. Amended §41.51 Appeals Relating to Eligibility
  - B. Amended §43.1 Administrative Review of Individual Requests;
  - C. Amended §43.3 Definitions;
  - D. Amended §43.5 Request for Adjudicative Hearing;
  - E. Amended §43.6 Filing of Documents;
  - F. Amended §43.8 Extensions;
  - G. Amended §43.9 Docketing of Appeal for Adjudicative Hearing and Dismissal for Failure to Obtain Setting;
  - H. Amended §43.10 Authority to Grant Relief; and
  - I. Amended §43.12 Form of Petitions and Other Pleadings.

Ms. Carolina de Onis announced that proposed amendments are two substantive changes and one clarification change to the nine rules regarding the current Benefit Appeals process for pension benefits, as well as health care eligibility determinations. Ms. de Onis noted that the appeals process currently included nine steps and the proposed amendments will serve to streamline that process. It reassigns the role of the COAO/ Deputy Executive Director by having the final administrative decision be made by the Chief Benefit Officer instead. She stated that the revisions will also move the docketing decision from the Executive Director to the COAO.

Ms. de Onis stated that the final substantive change aligns with recently legislation passed under HB 2629 which changes the amount of time a member has to appeal the final administrative decision from a set 45 days to either 45 days or an amount of time equal to the length of time it took TRS to issue the final administrative decision if longer than 45 days.

Ms. de Onis reviewed the non-substantive amendments as clarifying the ambiguous language regarding the appeals of the medical benefits on disability retirements.

She stated if approved the proposed amendments will be submitted for publication in the Texas Register. Once the public comment period expires, Ms. de Onis stated that the proposed rule amendments will be brought back for adoption.

On a motion by Mr. Hollingsworth, seconded by Mr. Nance, the committee approved for publication in the *Texas Register* notice of proposed amendments to the TRS Rules in Chapters 41 and 43 of Title 34, Part 3 of the Texas Administrative Code, as presented by staff.

There being no more business before the Policy Committee, the Committee adjourned at 2:17 p.m.

APPROVED BY THE **POLICY COMMITTEE** OF THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 15th DAY OF JULY 2020.

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Katherine H. Farrell  
Secretary of the TRS Board of Trustees

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Date



## Memorandum

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To: TRS Board of Trustees

From: Investment Management Division Proxy Committee

Date: March 31, 2020

Re: Proxy Voting Policy Recommendation

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### **Proxy Voting Policy Purpose**

Corporate governance and shareholder proposals can directly affect shareholder values. The right to vote shareholder proxies is therefore a trust asset. Informed proxy voting can enhance long-term shareholder returns in all markets. Accordingly, the purpose of this policy is to ensure that the TRS proxies are voted prudently and in the best economic interests of the pension plan so as to maximize portfolio returns over time.

### **Proxy Voting Policy**

Per the TRS policy review schedule, the Proxy Voting Policy should be reviewed every three years. The current policy was adopted effective April 7th, 2017, so the Proxy Committee began the scheduled review of the policy in Q4 2019. At the December 2019 Trustee Meeting, the Proxy Committee reviewed the policy and its purpose. At the February 2020 Trustee Meeting, TRS's current Proxy Advisor (ISS) provided an analysis of its business and process, an update on current trends in proxy voting, and insights on regulatory developments in the proxy voting arena.

Per the above schedule, the Trustees were scheduled to adopt amendments, if any, to the Proxy Voting Policy during the April 2020 Board Meetings. However, disruptions from the COVID-19 pandemic have resulted in the postponement of committee meetings until the July 2020 Board Meeting, and so adoption of any changes to the policy is scheduled for then.

### **Policy Recommendation**

After reviewing the Proxy Voting Policy with the Board advisors, the Proxy Committee believes that the current policy is appropriately designed to achieve the stated policy purpose set forth above, consistent with fiduciary obligations to manage trust assets; thus, we do not recommend any changes to the policy as currently drafted. Attached to this memo is the current Policy proposed to be readopted, as well as memos from the Board advisors in support of this recommendation.



# **PROXY VOTING POLICY**

**(rev. effective April 7, 2017)**

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## **1. OBJECTIVE**

Corporate governance and shareholder proposals can directly affect shareholder values. The right to vote shareholder proxies is therefore a trust asset. Informed proxy voting can enhance long-term shareholder returns in all markets. Accordingly, the purpose of this policy is to ensure that the TRS proxies are voted prudently and in the best economic interests of the pension plan so as to maximize portfolio returns over time.

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## **2. DELEGATION**

To assist and advise TRS to vote its proxies prudently, the TRS Board shall retain a reputable, independent proxy advisory service (the “Proxy Advisor”) to analyze proxy issues, make voting recommendations, and vote proxies as TRS’ agent. In selecting the Proxy Advisor, the Board will have determined that the Proxy Advisors’ voting guidelines are reasonably designed to help ensure that TRS fulfills its fiduciary responsibilities governing proxy voting, with the exclusive objective of maximizing the long-term economic benefits of TRS pension plan participants and beneficiaries.

The Board hereby delegates to the Chief Investment Officer (“CIO”) the responsibility for proxy voting and administration. The CIO shall further appoint a committee (the “Proxy Committee”) of qualified, professional members of the Investment Management Division (the “IMD”) to oversee the Proxy Advisor. The Proxy Committee shall also have two non-voting members, one from the Legal & Compliance Division and one from Investment Operations. The Proxy Committee shall keep current on voting guidelines recommended by the Proxy Advisor. As needed, but at least on an annual basis, the Proxy Committee shall review any voting guidelines issued by the Proxy Advisor to ensure that they are appropriate for TRS. When appropriate, the CIO or Proxy Committee should consult with staff in other departments, with other TRS consultants, and with the Board.

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## **3. GENERAL VOTING GUIDELINES**

Generally, the Proxy Committee will cause TRS proxies to be voted in accordance with the recommendations of the Proxy Advisor. Recommendations are based on the Proxy Advisor’s published guidelines. Such guidelines will be provided to the Board for review on an annual basis. On matters of special importance to TRS, however, the Board may vote during a Board meeting to direct the Proxy Committee to vote TRS proxies differently than recommended by the Proxy Advisor when doing so is in the best economic interests of the pension plan.

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#### **4. REPORTING & RECORD-KEEPING**

The Proxy Committee shall provide prior notice to the Chair of the Board's Policy Committee, the Executive Director, and the CIO of proxy votes where TRS votes other than in accordance with the Proxy Advisor's recommendation.

The Proxy Committee shall maintain, or cause to be maintained, a record of all proxy votes. If a proxy item is voted other than in accordance with the Proxy Advisor's recommendation or no recommendation has been made, such "exception votes" shall be described in a Proxy Exceptions Report delivered to the Board by the Proxy Committee at, or prior to, the Board's next quarterly meeting. The Proxy Exceptions Report must document the exception votes, the reasons supporting each such vote, the number of shares voted, and the date of each corporate meeting at which exception votes were cast.

Proxy voting will be administered so as to permit review for compliance with this policy. The Proxy Committee shall maintain, or cause to be maintained, the following items in readily accessible records for the retention period required by the applicable records retention schedule:

- a. a record of all proxies voted that contains company names, numbers of shares voted, date of each corporate meeting at which votes were cast, issues voted upon and the corresponding TRS vote, along with any necessary supporting documentation;
- b. the Proxy Exceptions Report referenced above;
- c. a record of any proxies received but not voted due to special circumstances, including untimely receipt, re-registration, or blocking; and
- d. copies of annual guidelines issued by the Proxy Advisor.

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#### **5. LOANED SECURITIES**

Because TRS conducts a securities lending program, securities may be on loan during the time when proxies must be voted. Loaned securities will be recalled for purposes of voting proxies only when the CIO or the Proxy Committee as the CIO's designee determines that the proxy voting interest clearly outweighs the securities lending interest. Recalling loaned securities for proxy voting purposes is expected to be the exception.

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#### **6. USE OF THIRD PARTY INVESTMENT MANAGERS TO VOTE PROXIES**

The CIO or the CIO's designee(s) may delegate to third party external managers proxy voting authority related to the securities managed by such manager, provided that the delegation of proxy voting authority is reasonably related to the investment strategy set forth in that manager's investment guidelines in the investment management agreement. Any proxy votes cast by an external manager pursuant to a delegation of proxy voting authority must be cast (1) in accordance with the applicable investment guidelines governing such external manager and (2) in the external manager's reasonable judgment as a fiduciary to TRS, in the best long-term economic interest of TRS. External managers must maintain records of any proxy votes cast on behalf of TRS and annually provide TRS reports of such votes or deliver reports of proxy votes cast upon request.



Suzanne M. Dugan  
(202) 408-4600  
sdugan@cohenmilstein.com

March 25, 2020

Board of Trustees  
Teacher Retirement System of Texas  
1000 Red River Street  
Austin, TX 78701

Re: *Proxy Voting Policy*

Dear Trustees:

At the Board's April 2020 meeting, TRS staff will present the Proxy Voting Policy ("Policy") for the Board's consideration and approval. The Proxy Committee is recommending that no changes be made to the existing Policy.

As noted by the Policy, the right to vote shareholder proxies is a trust asset, and proxy voting can enhance long-term shareholder returns. The purpose of the Policy is to ensure that TRS proxies are voted prudently and in the best economic interests of the pension plan so as to maximize portfolio returns over time.

The Policy was last revised in 2017. At that time, modifications were made to the then-existing version of the Policy in order to provide that the Board, rather than staff, selects the Proxy Advisor, and to affirm that the Board may direct the Proxy Committee to vote proxies differently than the Proxy Advisor recommendations on matters of special importance.

As part of the process of review of the current Policy, the Proxy Committee presented to the Board at its December 2019 meeting, and the Proxy Advisor presented to the Board at its February 2020 meeting. In my capacity as Fiduciary Counsel to the Board of TRS, I have reviewed the current Proxy Voting Policy, examined the previous versions of the Policy (2013-2017, and prior to 2013) and the history of the revisions made in 2017, and discussed with staff the current recommendation that no changes be made to the Policy.

March 25, 2020

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As you know, fiduciaries are judged by the process undertaken to reach decisions, and establishment of a reasonable decision-making process and adherence to that process help to demonstrate prudence. In this case, it is my opinion that the Policy language aligns with fiduciary standards for a prudently managed proxy voting process, and the process undertaken to review the Policy is procedurally prudent, so that the Board will have demonstrated appropriate fiduciary oversight in its consideration and approval of the Proxy Voting Policy.

Very truly yours,

**Cohen Milstein Sellers & Toll PLLC**



Suzanne M. Dugan  
Fiduciary Counsel



DEPARTMENT OF FINANCE


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## MEMORANDUM

To: Board of Trustees  
The Teacher Retirement System (TRS) of Texas

From: Keith C. Brown   
Advisor to the TRS Board

Re: TRS Proxy Voting Policy Statement

Date: March 23, 2020

I have reviewed the current version of the Proxy Voting policy statement. I concur with the assessment of the Investment Management Division (via the standing Proxy Committee) that the policy in its present form adequately serves the needs of the System. *Consequently, I endorse the position that no changes to the existing policy are necessary at this time.*

Without revisiting the entire history of how this policy has evolved in recent years—both the IMD and I have provided that analysis in previous correspondence—let me just mention that I think the most important issue for the Board to consider is whether this statement provides it with sufficient fiduciary control over the proxy voting process. I remain convinced that it does.

Essentially, the policy is designed as follows: the Board is responsible for setting the overall direction for the proxy voting responsibility, while the IMD is charged with managing the process within the parameters the Board has approved. The use of an external Proxy Advisor (which the Board retains) is a useful expediency that precludes the need for the Board to create an exhaustive list of recommended votes to cover every potential situation. This is a practical approach and one that is also consistent with what appears to be best practice in the industry.



## Memo

To Board of Trustees, Teacher Retirement System of Texas (“TRS”)

From Steve Voss; Mike McCormick

Date March 22, 2020

Re 2020 Review of Proxy Voting

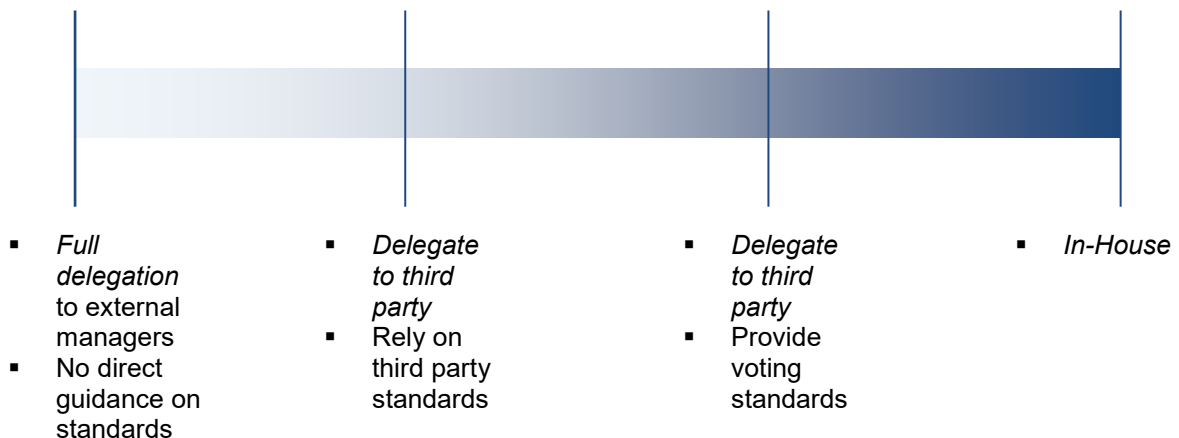
### Introduction

The ongoing review of the TRS Investment Policy and the ancillary policies represents an important responsibility of the Board, and an area where we spend a considerable amount of time. These policies govern TRS investment activities and are a critical component of good governance. While the TRS Investment Policy is reviewed on a biennial basis, the ancillary policies are reviewed less frequently; however, the policies can be revisited at any time deemed appropriate.

The goal of voting proxies is to enhance value to TRS. Given proxies are an asset with implicit value to TRS it is an important responsibility of the Board to periodically review the Proxy Voting Policy and to engage in an on-going review and monitoring of the proxy voting process.

### General Practices of Other Institutional Investors

As discussed during previous proxy policy reviews, there is no “right approach” for all institutional investors. Most entities tend to fall within a spectrum as it relates to their proxy voting practices. The exhibit below represents the level of delegation we typically see; from fully delegated responsibilities on the far left to an entity that brings all proxy voting responsibilities in house. The current TRS approach falls in the middle of the spectrum.





The approach utilized among our client base also tends to be in the middle to the left end of the spectrum. With our larger clients tending to delegate to a third party provider and some smaller clients choosing full delegation.

**Conclusion**

Following the 2020 review of the Proxy Policy there are no proposed changes. The Board will continue in its oversight function with regard to the selection of a proxy advisor and annual review of the proxy guidelines. TRS will continue to use an independent proxy advisory firm to manage and vote its proxies. We do not believe there is any reason to make changes to the Proxy Voting Policy at this time, and we are comfortable with the recommendation for no changes.